

MOOG INC.  
Form 10-Q  
July 31, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 29, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-5129

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INC.  
(Exact name of registrant as specified in its charter)

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New York State  
(State or other jurisdiction of incorporation or organization)

16-0757636  
(I.R.S. Employer Identification No.)

East Aurora, New York  
(Address of principal executive offices)  
(716) 652-2000

14052-0018  
(Zip Code)

(Telephone number including area code)

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Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of each class of common stock as of July 25, 2013 was:

Class A common stock, \$1.00 par value, 41,557,677 shares

Class B common stock, \$1.00 par value, 3,759,394 shares

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Moog Inc.  
 QUARTERLY REPORT ON FORM 10-Q  
 TABLE OF CONTENTS

| PART 1            | FINANCIAL INFORMATION  | PAGE      |
|-------------------|--|-----------|
| Item 1            | <u>Financial Statements:</u>   |           |
|                   | <u>Consolidated Condensed Balance Sheets as of June 29, 2013 and September 29, 2012</u>  | <u>3</u>  |
|                   | <u>Consolidated Condensed Statements of Earnings for the Three and Nine Months Ended June 29, 2013 and June 30, 2012</u>             | <u>4</u>  |
|                   | <u>Consolidated Condensed Statements of Comprehensive Income for the Three and Nine Months Ended June 29, 2013 and June 30, 2012</u> | <u>5</u>  |
|                   | <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended June 29, 2013 and June 30, 2012</u>                     | <u>6</u>  |
|                   | <u>Notes to Consolidated Condensed Financial Statements</u>  | 7-19      |
| Item 2            | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 20-35     |
| Item 3            | <u>Quantitative and Qualitative Disclosures about Market Risk</u>  | <u>36</u> |
| Item 4            | <u>Controls and Procedures</u>   | <u>36</u> |
| <br>              |  |           |
| PART II           | OTHER INFORMATION  |           |
| Item 2            | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | <u>37</u> |
| Item 6            | <u>Exhibits</u>  | 38        |
| <u>SIGNATURES</u> |  | 39        |

## PART I FINANCIAL INFORMATION

## Item 1. Financial Statements

Moog Inc.

Consolidated Condensed Balance Sheets

(Unaudited)

| (dollars in thousands)   | June 29,<br>2013   | September 29,<br>2012 |
|--|--------------------|-----------------------|
| <b>ASSETS</b>  |                    |                       |
| <b>CURRENT ASSETS</b>  |                    |                       |
| Cash and cash equivalents  | \$ 161,726         | \$ 148,841            |
| Receivables  | 762,685            | 744,551               |
| Inventories  | 558,487            | 538,262               |
| Other current assets   | 128,182            | 117,254               |
| <b>TOTAL CURRENT ASSETS</b>  | <b>1,611,080</b>   | <b>1,548,908</b>      |
| PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation of \$592,878 and \$560,856 respectively | 547,171            | 546,179               |
| GOODWILL   | 793,402            | 762,854               |
| INTANGIBLE ASSETS, net   | 211,308            | 212,195               |
| OTHER ASSETS   | 54,134             | 35,771                |
| <b>TOTAL ASSETS</b>  | <b>\$3,217,095</b> | <b>\$3,105,907</b>    |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                    |                       |
| <b>CURRENT LIABILITIES</b>   |                    |                       |
| Short-term borrowings  | \$ 75,959          | \$ 90,774             |
| Current installments of long-term debt   | 3,402              | 3,186                 |
| Accounts payable   | 172,823            | 169,587               |
| Customer advances  | 109,197            | 112,204               |
| Contract loss reserves   | 44,619             | 48,428                |
| Other accrued liabilities  | 235,350            | 239,697               |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>641,350</b>     | <b>663,876</b>        |
| LONG-TERM DEBT, excluding current installments   |                    |                       |
| Senior debt  | 513,858            | 292,083               |
| Senior subordinated notes  | 191,567            | 378,579               |
| LONG-TERM PENSION AND RETIREMENT OBLIGATIONS   | 413,463            | 427,588               |
| DEFERRED INCOME TAXES  | 50,709             | 36,455                |
| OTHER LONG-TERM LIABILITIES  | 3,283              | 2,536                 |
| <b>TOTAL LIABILITIES</b>   | <b>1,814,230</b>   | <b>1,801,117</b>      |
| <b>SHAREHOLDERS' EQUITY</b>  |                    |                       |
| Common stock   | 51,280             | 51,280                |
| Other shareholders' equity   | 1,351,585          | 1,253,510             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>  | <b>1,402,865</b>   | <b>1,304,790</b>      |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>  | <b>\$3,217,095</b> | <b>\$3,105,907</b>    |

See accompanying Notes to Consolidated Condensed Financial Statements.

Moog Inc.  
Consolidated Condensed Statements of Earnings  
(Unaudited)

| (dollars in thousands, except per share data)                          | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| NET SALES  | \$670,632          | \$611,221        | \$1,934,458       | \$1,836,809      |
| COST OF SALES  | 472,363            | 427,803          | 1,346,066         | 1,283,826        |
| GROSS PROFIT   | 198,269            | 183,418          | 588,392           | 552,983          |
| Research and development   | 33,109             | 28,198           | 103,550           | 84,285           |
| Selling, general and administrative                                    | 96,550             | 93,668           | 302,420           | 287,163          |
| Interest   | 6,084              | 8,566            | 21,122            | 25,748           |
| Restructuring  | 4,795              | —                | 6,996             | —                |
| Other  | 10,105             | (373)            | ) 7,647           | (310)            |
| EARNINGS BEFORE INCOME TAXES   | 47,626             | 53,359           | 146,657           | 156,097          |
| INCOME TAXES   | 13,399             | 14,488           | 41,785            | 45,432           |
| NET EARNINGS   | \$34,227           | \$38,871         | \$104,872         | \$110,665        |
| NET EARNINGS PER SHARE   |                    |                  |                   |                  |
| Basic  | \$0.76             | \$0.86           | \$2.31            | \$2.45           |
| Diluted  | \$0.75             | \$0.85           | \$2.29            | \$2.42           |
| AVERAGE COMMON SHARES  |                    |                  |                   |                  |
| OUTSTANDING  |                    |                  |                   |                  |
| Basic  | 45,316,429         | 45,258,844       | 45,334,657        | 45,232,833       |
| Diluted  | 45,836,565         | 45,707,738       | 45,790,359        | 45,723,097       |
| See accompanying Notes to Consolidated Condensed Financial Statements. |                    |                  |                   |                  |

Moog Inc.  
 Consolidated Condensed Statements of Comprehensive Income  
 (Unaudited)

| (dollars in thousands)   | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| NET EARNINGS   | \$34,227           | \$38,871         | \$104,872         | \$110,665        |
| OTHER COMPREHENSIVE INCOME<br>(LOSS), NET OF TAX:                      |                    |                  |                   |                  |
| Foreign currency translation adjustment                                | (948               | ) (21,759        | ) (17,802         | ) (14,497        |
| Retirement liability adjustment  | 4,532              | 3,262            | 14,633            | 8,784            |
| Change in accumulated income (loss) on<br>derivatives                  | (1,167             | ) 208            | (1,315            | ) 295            |
| OTHER COMPREHENSIVE INCOME<br>(LOSS), NET OF TAX                       | 2,417              | (18,289          | ) (4,484          | ) (5,418         |
| COMPREHENSIVE INCOME   | \$36,644           | \$20,582         | \$100,388         | \$105,247        |
| See accompanying Notes to Consolidated Condensed Financial Statements. |                    |                  |                   |                  |

Moog Inc.  
Consolidated Condensed Statements of Cash Flows  
(Unaudited)

| (dollars in thousands)   | Nine Months Ended |                   |
|--|-------------------|-------------------|
|  | June 29,<br>2013  | June 30,<br>2012  |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                   |
| Net earnings   | \$ 104,872        | \$ 110,665        |
| Adjustments to reconcile net earnings to net cash provided (used) by operating activities:       |                   |                   |
| Depreciation   | 55,345            | 48,574            |
| Amortization   | 25,080            | 25,091            |
| Provisions for non-cash losses on contracts, inventories and receivables                         | 43,274            | 53,598            |
| Equity-based compensation expense  | 5,673             | 5,540             |
| Other  | 2,286             | (5,671)           |
| Changes in assets and liabilities providing (using) cash, excluding the effects of acquisitions: |                   |                   |
| Receivables  | (14,480)          | (56,801)          |
| Inventories  | (31,935)          | (33,427)          |
| Accounts payable   | 3,780             | (5,131)           |
| Customer advances  | (2,896)           | 14,377            |
| Accrued expenses   | (39,706)          | (33,724)          |
| Accrued income taxes   | 11,975            | 5,828             |
| Pension assets and liabilities   | 7,537             | 19,795            |
| Other assets and liabilities   | (10,291)          | (5,207)           |
| <b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>   | <b>160,514</b>    | <b>143,507</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                   |
| Acquisitions of businesses, net of acquired cash   | (69,157)          | (25,673)          |
| Purchase of property, plant and equipment  | (63,031)          | (79,011)          |
| Other investing transactions   | (18,668)          | (5,377)           |
| <b>NET CASH USED BY INVESTING ACTIVITIES</b>   | <b>(150,856)</b>  | <b>(110,061)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                   |                   |
| Net short term borrowings (repayments)   | (12,928)          | 94,956            |
| Net proceeds (repayments) from revolving lines of credit   | 219,310           | (97,506)          |
| Payments on long-term debt, other than senior subordinated notes                                 | (3,125)           | (1,118)           |
| Payments on senior subordinated notes  | (187,000)         | —                 |
| Excess tax benefits from equity-based payment arrangements                                       | 702               | 368               |
| Other financing transactions   | (12,603)          | (809)             |
| <b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>  | <b>4,356</b>      | <b>(4,109)</b>    |
| Effect of exchange rate changes on cash  | (1,129)           | (3,566)           |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   | <b>12,885</b>     | <b>25,771</b>     |
| Cash and cash equivalents at beginning of period   | 148,841           | 113,679           |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>  | <b>\$ 161,726</b> | <b>\$ 139,450</b> |

CASH PAID FOR:

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|  |          |          |
|--|----------|----------|
| Interest   | \$26,041 | \$25,001 |
| Income taxes, net of refunds   | 33,589   | 45,017   |
| See accompanying Notes to Consolidated Condensed Financial Statements. |          |          |

6

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Moog Inc.  
Notes to Consolidated Condensed Financial Statements  
Nine Months Ended June 29, 2013  
(Unaudited)  
(dollars in thousands, except per share data)

#### Note 1 - Basis of Presentation

The accompanying unaudited consolidated condensed financial statements have been prepared by management in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments consisting of normal recurring adjustments considered necessary for the fair presentation of results for the interim period have been included. The results of operations for the nine months ended June 29, 2013 are not necessarily indicative of the results expected for the full year. The accompanying unaudited consolidated condensed financial statements should be read in conjunction with the financial statements and notes thereto included in our Form 10-K for the fiscal year ended September 29, 2012. All references to years in these financial statements are to fiscal years.

#### Note 2 - Acquisitions and Divestitures

In 2013, we completed two business combinations. One of these business combinations was in our Space and Defense Controls segment. We acquired Broad Reach Engineering for \$34,550 of cash consideration, issuance of \$8,450 of notes payable and contingent consideration with an initial fair value of \$2,565. Based in Colorado, Broad Reach Engineering is a leading designer and manufacturer of spaceflight electronics and software for aerospace, scientific, commercial and military missions. The company also provides ground testing, launch and on-orbit operations. We also completed one business combination in our Components segment. We acquired Aspen Motion Technologies, located in Radford, Virginia for \$33,911 in cash. Aspen, founded in 1996, is a designer and manufacturer of high-performance permanent magnet brushless DC motors, integrated digital controls and motorized impellers for motors. Aspen also specializes in custom motor designs for end product integration and significant product enhancement in a variety of high-performance industrial applications.

In 2012, we completed four business combinations. Two of these business combinations were in our Components segment. We acquired Protokraft, LLC, based in Tennessee, for \$12,500 in cash plus contingent consideration with an initial fair value of \$4,809. Protokraft designs and manufactures opto-electronic transceivers, ethernet switches and media converters packaged into rugged, environmentally-sealed connectors. We also acquired Tritech International Limited, based in the U.K., for \$34,267, net of cash acquired, which includes a working capital adjustment of \$1,346 paid in 2013. Tritech is a leading designer and manufacturer of high performance acoustic sensors, sonars, video cameras and mechanical tooling equipment. We also completed two business combinations in our Space and Defense Controls segment. We acquired Bradford Engineering, based in The Netherlands, for \$13,173, net of cash acquired. Bradford is a developer and manufacturer of satellite equipment including attitude control, propulsion and thermal control subsystems. We also acquired In-Space Propulsion for \$44,845, net of cash acquired, which includes a refund of \$650 received in 2013. In-Space Propulsion has locations in New York, California, Ireland and the United Kingdom and is a developer and manufacturer of liquid propulsion systems and components for satellites and missile defense systems.

On June 29, 2013, we completed one divestiture in our Medical Devices segment. We sold our Buffalo, New York operations of Ethox Medical for \$5,000 in cash, which will be received in our fourth quarter, plus a \$200 note receivable.

The purchase price allocations for the 2012 acquisitions are substantially complete. Allocations for 2013 acquisitions are subject to subsequent adjustment as we obtain additional information for our estimates during the respective

measurement periods.

7

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## Note 3 - Receivables

We securitize certain trade receivables in transactions that are accounted for as secured borrowings (Securitization Program). We maintain a subordinated interest in a portion of the pool of trade receivables that are securitized. The retained interest, which is included in Receivables in the consolidated condensed balance sheets, is recorded at fair value, which approximates the total amount of the designated pool of accounts receivable. Refer to Note 6, Indebtedness, for additional disclosures related to the Securitization Program.

## Note 4 - Inventories

Inventories, net of reserves, consist of:

|                                   | June 29,<br>2013 | September 29,<br>2012 |
|-----------------------------------|------------------|-----------------------|
| Raw materials and purchased parts | \$195,503        | \$188,643             |
| Work in progress                  | 289,283          | 283,122               |
| Finished goods                    | 73,701           | 66,497                |
| Total                             | \$558,487        | \$538,262             |

## Note 5 - Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

|                                  | Balance as of<br>September 29,<br>2012 | Acquisitions | Adjustment<br>To Prior<br>Year<br>Acquisitions | Divestiture | Foreign<br>Currency<br>Translation | Balance as of<br>June 29, 2013 |
|----------------------------------|--|--------------|--|-------------|------------------------------------|--------------------------------|
| Aircraft Controls                | \$192,386                              | \$—          | \$—  | \$—         | \$(3,755)                          | \$188,631                      |
| Space and Defense<br>Controls    | 130,715                                | 27,693       | 2,418  | —           | 164                                | 160,990                        |
| Industrial Systems<br>Components | 119,575                                | —            | —  | —           | (1,555)                            | 118,020                        |
| Medical Devices                  | 194,464                                | 11,351       | (366)  | —           | (2,652)                            | 202,797                        |
| Total                            | 125,714                                | —            | —  | (2,900)     | 150                                | 122,964                        |
|                                  | \$762,854                              | \$39,044     | \$2,052  | \$(2,900)   | \$(7,648)                          | \$793,402                      |

The components of acquired intangible assets are as follows:

|                            |                                       | June 29, 2013            |                             | September 29, 2012       |                             |
|----------------------------|---------------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                            | Weighted -<br>Average Life<br>(years) | Gross Carrying<br>Amount | Accumulated<br>Amortization | Gross Carrying<br>Amount | Accumulated<br>Amortization |
| Customer-related           | 10                                    | \$191,061                | \$(91,910)                  | \$179,383                | \$(80,953)                  |
| Program-related            | 18                                    | 75,857                   | (16,789)                    | 79,631                   | (13,976)                    |
| Technology-related         | 9                                     | 75,771                   | (40,302)                    | 67,969                   | (35,676)                    |
| Marketing-related          | 9                                     | 32,853                   | (17,643)                    | 29,327                   | (16,145)                    |
| Acquired intangible assets | 12                                    | \$375,542                | \$(166,644)                 | \$356,310                | \$(146,750)                 |

All acquired intangible assets other than goodwill are being amortized. Customer-related intangible assets primarily consist of customer relationships. Program-related intangible assets consist of long-term programs represented by current contracts and probable follow on work. Technology-related intangible assets primarily consist of technology, patents, intellectual property and software. Marketing-related intangible assets primarily consist of trademarks, trade

names and non-compete agreements.

Amortization of acquired intangible assets was \$7,749 and \$23,543 for the three and nine months ended June 29, 2013 and \$7,925 and \$23,218 for the three and nine months ended June 30, 2012. Based on acquired intangible assets recorded at June 29, 2013, amortization is expected to be approximately \$31,400 in 2013, \$29,300 in 2014, \$25,100 in 2015, \$23,400 in 2016 and \$20,200 in 2017.

## Note 6 - Indebtedness

Short-term borrowings consist of:

|                        | June 29,<br>2013 | September 29,<br>2012 |
|------------------------|------------------|-----------------------|
| Securitization program | \$68,900         | \$81,800              |
| Lines of credit        | 7,059            | 8,974                 |
| Short-term borrowings  | \$75,959         | \$90,774              |

The Securitization Program matures on March 3, 2014 and effectively increases our borrowing capacity by up to \$100,000. Under the Securitization Program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. The Securitization Program can be extended by agreement of the parties thereto for successive 364-day terms. Interest for the Securitization Program is based on prevailing market rates for short-term commercial paper plus an applicable margin. A commitment fee is also charged based on a percentage of the unused amounts available and is not material. The agreement governing the Securitization Program contains restrictions and covenants which include limitations on the making of certain restricted payments, creation of certain liens, and certain corporate acts such as mergers, consolidations and sale of substantially all assets.

In addition to the Securitization Program, we maintain short-term credit facilities with banks throughout the world that are principally demand lines subject to revision by the banks.

On January 15, 2013, we repurchased at par our 6¼% senior subordinated notes due on January 15, 2015, pursuant to an early redemption right. We redeemed the aggregate principal amount of \$200,000 using proceeds drawn from our U.S. credit facility.

On March 28, 2013, we amended our U.S. credit facility. The amendments primarily reflect a modification of the matrix used to determine the applicable interest margin, the commitment fee rate and extended the maturity of the credit facility to March 28, 2018. The credit facility consists of a \$900,000 revolver and had an outstanding balance of \$508,630 at June 29, 2013. Interest on the outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 138 basis points at June 29, 2013. The credit facility is secured by substantially all of our U.S. assets.

## Note 7 - Product Warranties

In the ordinary course of business, we warrant our products against defects in design, materials and workmanship typically over periods ranging from twelve to sixty months. We determine warranty reserves needed by product line based on historical experience and current facts and circumstances. Activity in the warranty accrual is summarized as follows:

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Warranty accrual at beginning of period | \$16,450           | \$17,720         | \$18,859          | \$19,247         |
| Additions from acquisitions             | —                  | —                | —                 | 40               |
| Warranties issued during current period | 3,550              | 2,623            | 6,483             | 6,884            |
| Adjustments to pre-existing warranties  | (666               | ) 160            | (1,141            | ) (145           |
| Reductions for settling warranties      | (1,943             | ) (2,653         | ) (6,187          | ) (8,198         |
| Foreign currency translation            | 20                 | (237             | ) (603            | ) (215           |

|                                   |          |          |          |          |
|-----------------------------------|----------|----------|----------|----------|
| Warranty accrual at end of period | \$17,411 | \$17,613 | \$17,411 | \$17,613 |
|-----------------------------------|----------|----------|----------|----------|

## Note 8 - Derivative Financial Instruments

We principally use derivative financial instruments to manage foreign exchange risk related to foreign operations and foreign currency transactions and interest rate risk associated with long-term debt. We enter into derivative financial instruments with a number of major financial institutions to minimize counterparty credit risk.

## Derivatives designated as hedging instruments

Interest rate swaps are used to adjust the proportion of total debt that is subject to variable and fixed interest rates. The interest rate swaps are designated as hedges of the amount of future cash flows related to interest payments on variable-rate debt that, in combination with the interest payments on the debt, convert a portion of the variable-rate debt to fixed-rate debt. At June 29, 2013, we had interest rate swaps with notional amounts totaling \$120,000. The interest rate swaps effectively convert this amount of variable-rate debt to fixed-rate debt at 1.8%, including the applicable margin of 138 basis points as of June 29, 2013. The interest will revert back to variable rates based on LIBOR plus the applicable margin upon the maturity of the interest rate swaps on January 15, 2015 and January 15, 2016.

We use foreign currency forward contracts as cash flow hedges to effectively fix the exchange rates on future payments and revenue. To mitigate exposure in movements between various currencies, primarily the Philippine peso, we had outstanding foreign currency forwards with notional amounts of \$49,433 at June 29, 2013. These contracts mature at various times through the third quarter of 2015.

These interest rate swaps and foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and the related gains or losses are deferred in shareholders' equity as a component of Accumulated Other Comprehensive Income (Loss) (AOCI). These deferred gains and losses are reclassified into expense during the periods in which the related payments or receipts affect earnings. However, to the extent the interest rate swaps and foreign currency forwards are not perfectly effective in offsetting the change in the value of the payments and revenue being hedged, the ineffective portion of these contracts is recognized in earnings immediately. Ineffectiveness was not material in the first nine months of 2013 or 2012.

Activity in AOCI related to these derivatives is summarized below:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Balance at beginning of period                       | \$72               | \$(78)           | \$220             | \$(165)          |
| Net deferral in AOCI of derivatives:                 |                    |                  |                   |                  |
| Net increase (decrease) in fair value of derivatives | (1,863)            | 372              | (1,696)           | 568              |
| Tax effect   | 722                | (173)            | 652               | (245)            |
|  | (1,141)            | 199              | (1,044)           | 323              |
| Net reclassification from AOCI into earnings:        |                    |                  |                   |                  |
| Reclassification from AOCI into earnings             | (42)               | 6                | (462)             | (67)             |
| Tax effect   | 16                 | 3                | 191               | 39               |
|  | (26)               | 9                | (271)             | (28)             |
| Balance at end of period                             | \$(1,095)          | \$130            | \$(1,095)         | \$130            |

Activity and classification of derivatives are as follows:

|                           |                                      | Net deferral in AOCI of derivatives - effective portion          |               |                   |               |
|---------------------------|--------------------------------------|--|---------------|-------------------|---------------|
|                           |                                      | Three Months Ended   |               | Nine Months Ended |               |
|                           | Statement of earnings classification | June 29, 2013  | June 30, 2012 | June 29, 2013     | June 30, 2012 |
| Interest rate swaps       | Interest expense                     | \$ 156   | \$—           | \$(47 )           | \$—           |
| Foreign currency forwards | Cost of sales                        | (2,019 )   | 372           | (1,649 )          | 568           |
| Net gain (loss)           |                                      | \$(1,863 )   | \$372         | \$(1,696 )        | \$568         |
|                           |                                      | Net reclassification from AOCI into earnings - effective portion |               |                   |               |
|                           |                                      | Three Months Ended   |               | Nine Months Ended |               |
|                           | Statement of earnings classification | June 29, 2013  | June 30, 2012 | June 29, 2013     | June 30, 2012 |
| Interest rate swaps       | Interest expense                     | \$(61 )  | \$—           | \$(104 )          | \$(67 )       |
| Foreign currency forwards | Cost of sales                        | 103  | (6 )          | 566               | 134           |
| Net gain (loss)           |                                      | \$42   | \$(6 )        | \$462             | \$67          |

#### Derivatives not designated as hedging instruments

We also have foreign currency exposure on balances, primarily intercompany, that are denominated in foreign currencies and are adjusted to current values using period-end exchange rates. The resulting gains or losses are recorded in the consolidated condensed statements of earnings. To minimize foreign currency exposure, we had foreign currency forwards with notional amounts of \$231,197 at June 29, 2013. The foreign currency forwards are recorded in the consolidated condensed balance sheets at fair value and resulting gains or losses are recorded in the consolidated condensed statements of earnings. We recorded the following gains or losses on foreign currency forwards which are included in other income or expense and generally offset the gains or losses from the foreign currency adjustments on the intercompany balances that are also included in other income or expense:

|                 | Three Months Ended |               | Nine Months Ended |               |
|-----------------|--------------------|---------------|-------------------|---------------|
|                 | June 29, 2013      | June 30, 2012 | June 29, 2013     | June 30, 2012 |
| Net gain (loss) | \$(2,835 )         | \$(812 )      | \$3,066           | \$(1,383 )    |



## Summary of derivatives

The fair value and classification of derivatives is summarized as follows:

|  |                             | June 29,<br>2013 | September 29,<br>2012 |
|--|-----------------------------|------------------|-----------------------|
| Derivatives designated as hedging instruments:     |                             |                  |                       |
| Foreign currency forwards                          | Other current assets        | \$90             | \$467                 |
| Foreign currency forwards                          | Other assets                | 50               | 32                    |
| Interest rate swaps                                | Other current assets        | 33               | —                     |
| Interest rate swaps                                | Other assets                | 48               | —                     |
|  | Total assets                | \$221            | \$499                 |
| Foreign currency forwards                          | Other accrued liabilities   | \$1,130          | \$41                  |
| Foreign currency forwards                          | Other long-term liabilities | 858              | 40                    |
| Interest rate swaps                                | Other accrued liabilities   | 21               | —                     |
| Interest rate swaps                                | Other long-term liabilities | 12               | —                     |
|  | Total liabilities           | \$2,021          | \$81                  |
| Derivatives not designated as hedging instruments: |                             |                  |                       |
| Foreign currency forwards                          | Other current assets        | \$2,026          | \$1,456               |
|  | Total assets                | \$2,026          | \$1,456               |
| Foreign currency forwards                          | Other accrued liabilities   | \$1,552          | \$2,549               |
|  | Total liabilities           | \$1,552          | \$2,549               |

## Note 9 - Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Depending on the nature of the asset or liability, various techniques and assumptions can be used to estimate fair value. The definition of the fair value hierarchy is as follows:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for similar assets and liabilities.

Level 3 – Inputs for which significant valuation assumptions are unobservable in a market and therefore value is based on the best available data, some of which is internally developed and considers risk premiums that a market participant would require.

Our derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market data, such as interest rate yield curves and currency rates, and are classified as Level 2 within the valuation hierarchy. Our Level 3 fair value liabilities represent contingent consideration recorded for acquisitions to be paid if various financial targets are met. The amounts recorded were calculated for each payment scenario in each period using an estimate of the probability of the future cash outflows. The varying contingent payments were then discounted to the present value at the weighted average cost of capital. Fair value is assessed on a quarterly basis, or whenever events or circumstances change that indicates an adjustment is required. The assessment includes an evaluation of the performance of the acquired business compared to previous expectations, changes to future projections and the probability of achieving the earn out targets.

The following table presents the fair values and classification of our financial assets and liabilities measured on a recurring basis as of June 29, 2013:

|                                      | Classification              | Level 1 | Level 2 | Level 3 | Total   |
|--------------------------------------|-----------------------------|---------|---------|---------|---------|
| Foreign currency forwards            | Other current assets        | \$—     | \$2,116 | \$—     | \$2,116 |
| Foreign currency forwards            | Other assets                | —       | 50      | —       | 50      |
| Interest rate swaps                  | Other current assets        | —       | 33      | —       | 33      |
| Interest rate swaps                  | Other assets                | —       | 48      | —       | 48      |
|                                      | Total assets                | \$—     | \$2,247 | \$—     | \$2,247 |
| Foreign currency forwards            | Other accrued liabilities   | \$—     | \$2,682 | \$—     | \$2,682 |
| Foreign currency forwards            | Other long-term liabilities | —       | 858     | —       | 858     |
| Interest rate swaps                  | Other accrued liabilities   | —       | 21      | —       | 21      |
| Interest rate swaps                  | Other long-term liabilities | —       | 12      | —       | 12      |
| Acquisition contingent consideration | Other accrued liabilities   | —       | —       | 1,430   | 1,430   |
| Acquisition contingent consideration | Other long-term liabilities | —       | —       | 2,032   | 2,032   |
|                                      | Total liabilities           | \$—     | \$3,573 | \$3,462 | \$7,035 |

The changes in financial liabilities classified as Level 3 within the fair value hierarchy are as follows:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
|  |                    |                  |                   |                  |

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|   |          |         |          |         |
|---|----------|---------|----------|---------|
| Balance at beginning of period  | \$5,148  | \$5,943 | \$6,422  | \$1,990 |
| Acquisitions  | (1,711 ) | 371     | 2,565    | 4,809   |
| Increase in discounted future cash flows recorded as interest expense | 25       | 103     | 244      | 191     |
| Decrease in earn out provisions recorded as other income              | —        | (40 )   | (2,991 ) | (613 )  |
| Settlements paid in cash  | —        | —       | (2,778 ) | —       |
| Balance at end of period  | \$3,462  | \$6,377 | \$3,462  | \$6,377 |

Our only financial instrument for which the carrying value differs from its fair value is long-term debt. At June 29, 2013, the fair value of long-term debt was \$714,582 compared to its carrying value of \$708,827. The fair value of long-term debt is classified as Level 2 within the fair value hierarchy and was estimated based on quoted market prices.

#### Note 10 - Employee Benefit Plans

Net periodic benefit costs for U.S. pension plans consist of:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Service cost                                   | \$6,714            | \$5,837          | \$20,142          | \$17,511         |
| Interest cost                                  | 7,205              | 7,446            | 21,614            | 22,338           |
| Expected return on plan assets                 | (10,335)           | (10,492)         | (31,005)          | (31,476)         |
| Amortization of prior service cost             | 2                  | 2                | 6                 | 6                |
| Amortization of actuarial loss                 | 6,901              | 4,256            | 20,703            | 12,768           |
| Pension expense for defined benefit plans      | 10,487             | 7,049            | 31,460            | 21,147           |
| Pension expense for defined contribution plans | 2,794              | 2,262            | 7,959             | 6,459            |
| Total pension expense for U.S. plans           | \$13,281           | \$9,311          | \$39,419          | \$27,606         |

Net periodic benefit costs for non-U.S. pension plans consist of:

|  | Three Months Ended |                  | Nine Months Ended |                  |
|--|--------------------|------------------|-------------------|------------------|
|  | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Service cost                                   | \$1,235            | \$945            | \$3,646           | \$2,966          |
| Interest cost                                  | 1,476              | 1,325            | 4,297             | 4,294            |
| Expected return on plan assets                 | (960)              | (889)            | (2,806)           | (2,814)          |
| Amortization of prior service credit           | (12)               | (16)             | (38)              | (45)             |
| Amortization of actuarial loss                 | 405                | 207              | 1,184             | 642              |
| Pension expense for defined benefit plans      | 2,144              | 1,572            | 6,283             | 5,043            |
| Pension expense for defined contribution plans | 1,365              | 1,168            | 4,036             | 3,584            |
| Total pension expense for non-U.S. plans       | \$3,509            | \$2,740          | \$10,319          | \$8,627          |

Net periodic benefit costs for post-retirement health care benefit plan consists of:

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Service cost                                | \$73               | \$82             | \$219             | \$246            |
| Interest cost                               | 137                | 196              | 412               | 588              |
| Amortization of transition obligation       | 90                 | 99               | 271               | 297              |
| Total periodic post-retirement benefit cost | \$300              | \$377            | \$902             | \$1,131          |

Activity in AOCI related to U.S. pension plans, non-U.S. pension plans and post-retirement health care benefit plans is summarized below:

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Balance at beginning of period                | \$(270,323 )       | \$(228,606 )     | \$(280,424 )      | \$(234,128 )     |
| Net reclassification from AOCI into earnings: |                    |                  |                   |                  |
| Reclassification from AOCI into earnings      | 7,270              | 4,960            | 22,865            | 13,878           |
| Tax effect                                    | (2,738 )           | (1,698 )         | (8,232 )          | (5,094 )         |
|   | 4,532              | 3,262            | 14,633            | 8,784            |
| Balance at end of period                      | \$(265,791 )       | \$(225,344 )     | \$(265,791 )      | \$(225,344 )     |

Actual contributions for the nine months ended June 29, 2013 and anticipated additional 2013 contributions to our defined benefit pension plans are as follows:

|             | U.S. Plans | Non-U.S. Plans | Total    |
|-------------|------------|----------------|----------|
| Actual      | \$23,646   | \$6,561        | \$30,207 |
| Anticipated | 10,867     | 1,678          | 12,545   |
|             | \$34,513   | \$8,239        | \$42,752 |

## Note 11 - Restructuring

We have initiated restructuring plans to better align our cost structure with projected sales levels. The restructuring actions taken have and will result in workforce reductions, primarily in the U.S., Europe and Asia.

Restructuring expense, which is principally related to severance, by segment for the three and nine months ended June 29, 2013 is as follows:

|                            | Three Months<br>Ended<br>June 29,<br>2013 | Nine Months<br>Ended<br>June 29,<br>2013 |
|----------------------------|---|--|
| Aircraft Controls          | \$1,226                                   | \$1,700                                  |
| Space and Defense Controls | 556                                       | 556                                      |
| Industrial Systems         | 3,013                                     | 4,740                                    |
| Total                      | \$4,795                                   | \$6,996                                  |

Restructuring activity is as follows:

|                                | Three Months<br>Ended<br>June 29,<br>2013 | Nine Months<br>Ended<br>June 29,<br>2013 |
|--------------------------------|---|--|
| Balance at beginning of period | \$969                                     | \$—                                      |
| Charged to expense             | 4,795                                     | 6,996                                    |
| Cash payments                  | (3,612                                    | ) (4,806                                 |
| Foreign currency translation   | (6  | ) (44                                    |
| Balance at end of period       | \$2,146                                   | \$2,146                                  |

Payments related to these costs are expected to be principally paid by the end of 2013. We anticipate that total restructuring charges will be approximately \$1,700, \$1,600 and \$7,700 in our Aircraft Controls, Space and Defense Controls and Industrial Systems segments, respectively, in 2013.

## Note 12 - Income Taxes

The effective tax rates of 28.1% and 28.5% for the three and nine months ended June 29, 2013 and 27.2% and 29.1% for the three and nine months ended June 30, 2012 are lower than would be expected by applying the U.S. federal statutory tax rate to earnings before income taxes partly as a result of a significant portion of our earnings that come from foreign operations with lower tax rates.

## Note 13 - Shareholders' Equity

The changes in shareholders' equity for the nine months ended June 29, 2013 are summarized as follows:

|  | Amount             | Number of Shares        |                         |
|--|--------------------|-------------------------|-------------------------|
|  |                    | Class A<br>Common Stock | Class B<br>Common Stock |
| <b>COMMON STOCK</b>                                      |                    |                         |                         |
| Beginning of period                                      | \$51,280           | 43,575,124              | 7,704,589               |
| Conversion of Class B to Class A                         | —                  | 29,936                  | (29,936 )               |
| End of Period  | 51,280             | 43,605,060              | 7,674,653               |
| <b>ADDITIONAL PAID-IN CAPITAL</b>                        |                    |                         |                         |
| Beginning of period                                      | 421,969            |                         |                         |
| Equity-based compensation expense                        | 5,673              |                         |                         |
| Issuance of treasury shares at more than cost            | 5,083              |                         |                         |
| Adjustment to market - SECT, and other                   | 7,031              |                         |                         |
| End of period  | 439,756            |                         |                         |
| <b>RETAINED EARNINGS</b>                                 |                    |                         |                         |
| Beginning of period                                      | 1,169,216          |                         |                         |
| Net earnings   | 104,872            |                         |                         |
| End of period  | 1,274,088          |                         |                         |
| <b>TREASURY STOCK</b>                                    |                    |                         |                         |
| Beginning of period                                      | (74,980            | ) (2,253,318            | ) (3,305,971 )          |
| Issuance of treasury shares                              | 3,033              | 375,942                 | —                       |
| Purchase of treasury shares                              | (8,264             | ) (186,382              | ) —                     |
| End of period  | (80,211            | ) (2,063,758            | ) (3,305,971 )          |
| <b>STOCK EMPLOYEE COMPENSATION TRUST (SECT)</b>          |                    |                         |                         |
| Beginning of period                                      | (15,984            | )                       | (418,317 )              |
| Issuance of shares                                       | 781                |                         | 21,237                  |
| Purchase of shares                                       | (9,319             | )                       | (206,926 )              |
| Adjustment to market - SECT                              | (6,331             | )                       | —                       |
| End of period  | (30,853            | ) —                     | (604,006 )              |
| <b>ACCUMULATED OTHER COMPREHENSIVE (LOSS)<br/>INCOME</b> |                    |                         |                         |
| Beginning of period                                      | (246,711           | )                       |                         |
| Other comprehensive loss                                 | (4,484             | )                       |                         |
| End of period  | (251,195           | )                       |                         |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                        | <b>\$1,402,865</b> | <b>41,541,302</b>       | <b>3,764,676</b>        |

The components of accumulated other comprehensive loss, net of tax, are as follows:

|  | June 29,<br>2013 | September 29,<br>2012 |
|--|------------------|-----------------------|
| Accumulated foreign currency translation | \$15,691         | \$33,493              |
| Accumulated retirement liability         | (265,791         | ) (280,424 )          |
| Accumulated gain (loss) on derivatives   | (1,095           | ) 220                 |

|   |             |   |             |   |
|---|-------------|---|-------------|---|
| Accumulated other comprehensive gain (loss) | \$ (251,195 | ) | \$ (246,711 | ) |
|---|-------------|---|-------------|---|



## Note 14 - Stock Employee Compensation Trust

The Stock Employee Compensation Trust (SECT) assists in administering and provides funding for equity-based compensation plans and benefit programs, including the Moog Inc. Retirement Savings Plan. The shares in the SECT are not considered outstanding for purposes of calculating earnings per share. However, in accordance with the trust agreement governing the SECT, the SECT trustee votes all shares held by the SECT on all matters submitted to shareholders.

## Note 15 - Earnings per Share

Basic and diluted weighted-average shares outstanding are as follows:

|   | Three Months Ended |                  | Nine Months Ended |                  |
|---|--------------------|------------------|-------------------|------------------|
|   | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |
| Weighted-average shares outstanding - Basic   | 45,316,429         | 45,258,844       | 45,334,657        | 45,232,833       |
| Dilutive effect of equity-based awards        | 520,136            | 448,894          | 455,702           | 490,264          |
| Weighted-average shares outstanding - Diluted | 45,836,565         | 45,707,738       | 45,790,359        | 45,723,097       |

## Note 16 - Segment Information

Below are sales and operating profit by segment for the three and nine months ended June 29, 2013 and June 30, 2012 and a reconciliation of segment operating profit to earnings before income taxes. Operating profit is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, number of employees or profit.

|                                      | Three Months Ended |                  | Nine Months Ended |                  |  |   |
|--------------------------------------|--------------------|------------------|-------------------|------------------|--|---|
|                                      | June 29,<br>2013   | June 30,<br>2012 | June 29,<br>2013  | June 30,<br>2012 |  |   |
| Net sales:                           |                    |                  |                   |                  |  |   |
| Aircraft Controls                    | \$272,855          | \$242,220        | \$783,996         | \$709,688        |  |   |
| Space and Defense Controls           | 100,071            | 87,138           | 292,224           | 265,343          |  |   |
| Industrial Systems                   | 147,161            | 157,871          | 439,338           | 483,971          |  |   |
| Components                           | 112,546            | 90,335           | 310,625           | 274,125          |  |   |
| Medical Devices                      | 37,999             | 33,657           | 108,275           | 103,682          |  |   |
| Net sales                            | \$670,632          | \$611,221        | \$1,934,458       | \$1,836,809      |  |   |
| Operating profit (loss) and margins: |                    |                  |                   |                  |  |   |
| Aircraft Controls                    | \$31,054           | \$27,826         | \$93,647          | \$75,436         |  |   |
|                                      | 11.4               | % 11.5           | % 11.9            | % 10.6           |  | % |
| Space and Defense Controls           | 6,711              | 9,892            | 22,610            | 32,538           |  |   |
|                                      | 6.7                | % 11.4           | % 7.7             | % 12.3           |  | % |
| Industrial Systems                   | 9,273              | 15,880           | 26,157            | 50,978           |  |   |
|                                      | 6.3                | % 10.1           | % 6.0             | % 10.5           |  | % |
| Components                           | 18,360             | 12,657           | 52,548            | 41,165           |  |   |
|                                      | 16.3               | % 14.0           | % 16.9            | % 15.0           |  | % |
| Medical Devices                      | (2,775)            | ) 1,358          | 133               | 4,445            |  |   |
|                                      | (7.3               | )% 4.0           | % 0.1             | % 4.3            |  | % |
| Total operating profit               | 62,623             | 67,613           | 195,095           | 204,562          |  |   |
|                                      | 9.3                | % 11.1           | % 10.1            | % 11.1           |  | % |
| Deductions from operating profit:    |                    |                  |                   |                  |  |   |
| Interest expense                     | 6,084              | 8,566            | 21,122            | 25,748           |  |   |
| Equity-based compensation expense    | 949                | 750              | 5,673             | 5,540            |  |   |
| Corporate expenses and other         | 7,964              | 4,938            | 21,643            | 17,177           |  |   |
| Earnings before income taxes         | \$47,626           | \$53,359         | \$146,657         | \$156,097        |  |   |

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Company's Annual Report filed on Form 10-K for the fiscal year ended September 29, 2012. All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations are to fiscal years and amounts may differ from reported values due to rounding.

OVERVIEW

We are a worldwide designer, manufacturer and integrator of high performance precision motion and fluid controls and control systems for a broad range of applications in aerospace and defense and industrial markets. Within the aerospace and defense market, our products and systems include military and commercial aircraft flight controls, thrust vector controls for space launch vehicles, controls for gun aiming, stabilization and automatic ammunition loading for armored combat vehicles, satellite positioning controls and controls for steering tactical and strategic missiles. In the industrial market, our products are used in a wide range of applications including injection molding machines, metal forming, heavy industry, material and automotive testing, pilot training simulators, wind energy, enteral clinical nutrition pumps, infusion therapy pumps, oil exploration, motors used in sleep apnea devices, power generation, surveillance systems and slip rings used on CT scanners. We operate under five segments, Aircraft Controls, Space and Defense Controls, Industrial Systems, Components and Medical Devices. Our principal manufacturing facilities are located in the United States, the United Kingdom, the Philippines, Germany, China, India, Italy, The Netherlands, Japan, Costa Rica, Luxembourg, Ireland and Canada.

We have long-term contracts with some of our customers. These contracts are predominantly within Aircraft Controls and Space and Defense Controls and represented 32% of our 2012 sales. We recognize revenue on these contracts using the percentage of completion, cost-to-cost method of accounting as work progresses toward completion. The remainder of our sales are recognized when the risks and rewards of ownership and title to the product are transferred to the customer, principally as units are delivered or as service obligations are satisfied. This method of revenue recognition is predominantly used within the Industrial Systems, Components and Medical Devices segments, and with aftermarket activity.

We concentrate on providing our customers with products designed and manufactured to the highest quality standards. In achieving a leadership position in the high performance, precision controls market, we have capitalized on our strengths, which include:

- superior technical competence,
- customer diversity and broad product portfolio, and
- well-established international presence serving customers worldwide.

We intend to increase our revenue base and improve our profitability and cash flows from operations by building on our market leadership positions, by strengthening our niche market positions in the principal markets we serve and by extending our participation on the platforms we supply by providing more systems solutions. We also expect to maintain a balanced, diversified portfolio in terms of markets served, product applications, customer base and geographic presence. Our strategy to achieve our objectives includes:

- maintaining our technological excellence by building upon our systems integration capabilities while solving our customers' most demanding technical problems,
- striving for continuing cost improvements,
- taking advantage of our global capabilities,
- developing products for new and emerging markets,
- growing our profitable aftermarket business, and
- capitalizing on strategic acquisitions and opportunities.

We face numerous challenges to improve shareholder value. These include, but are not limited to, adjusting to dynamic global economic conditions that are influenced by governmental, industrial and commercial factors, pricing pressures from customers, strong competition, foreign currency fluctuations and increases in employee benefit costs.

We address these challenges by focusing on strategic revenue growth and by continuing to improve operating efficiencies through various process and manufacturing initiatives and using low cost manufacturing facilities without compromising quality. Based on periodic strategy reviews, including the financial outlook of our business, we may also engage in restructuring activities, including reducing overhead, consolidating facilities and exiting some product lines.

20

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## Acquisitions and Divestitures

All of our acquisitions are accounted for under the purchase method and, accordingly, the operating results for the acquired companies are included in the consolidated statements of earnings from the respective dates of acquisition. Under purchase accounting, we record assets and liabilities at fair value on the consolidated balance sheet. The purchase price described for each acquisition below is net of any cash acquired and includes debt issued or assumed.

In 2013, we completed two business combinations. One of these business combinations was in our Space and Defense Controls segment. We acquired Broad Reach Engineering for \$43 million and contingent consideration with an initial fair value of \$3 million. Based in Colorado, Broad Reach Engineering is a leading designer and manufacturer of spaceflight electronics and software for aerospace, scientific, commercial and military missions. The company also provides ground testing, launch and on-orbit operations. We also completed one business combination in our Components segment. We acquired Aspen Motion Technologies, located in Radford, Virginia, for \$34 million. Aspen, founded in 1996, is a designer and manufacturer of high-performance permanent magnet brushless DC motors, integrated digital controls and motorized impellers for motors. Aspen also specializes in custom motor designs for end product integration and significant product enhancement in a variety of high-performance industrial applications.

In 2012, we completed four business combinations. Two of these business combinations were in our Components segment. We acquired Protokraft, LLC, based in Tennessee, for \$13 million plus contingent consideration with an initial fair value of \$5 million. Protokraft designs and manufactures opto-electronic transceivers, ethernet switches and media converters packaged into rugged, environmentally-sealed connectors. We also acquired Tritech International Limited, based in the U.K., for \$34 million, which includes a working capital adjustment of \$1 million paid in 2013. Tritech is a leading designer and manufacturer of high performance acoustic sensors, sonars, video cameras and mechanical tooling equipment. We also completed two business combinations in our Space and Defense Controls segment. We acquired Bradford Engineering, based in The Netherlands, for \$13 million. Bradford is a developer and manufacturer of satellite equipment including attitude control, propulsion and thermal control subsystems. We also acquired In-Space Propulsion for \$45 million. In-Space Propulsion has locations in New York, California, Ireland and the United Kingdom and is a developer and manufacturer of liquid propulsion systems and components for satellites and missile defense systems.

In 2013, we completed one divestiture in our Medical Devices segment. We sold our Buffalo, New York operations of Ethox Medical for \$5 million.

## CRITICAL ACCOUNTING POLICIES

On an ongoing basis, we evaluate the critical accounting policies used to prepare our consolidated financial statements, including, but not limited to, revenue recognition on long-term contracts, contract loss reserves, reserves for inventory valuation, reviews for impairment of goodwill, purchase price allocations for business combination, pension assumptions and deferred tax asset valuation allowances.

There have been no material changes in critical accounting policies in the current year from those disclosed in our 2012 Form 10-K.

## RECENT ACCOUNTING PRONOUNCEMENTS

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments require companies to provide information about the amounts reclassified out of accumulated comprehensive income by component. The amendments also require the presentation

of the significant amounts reclassified out of accumulated comprehensive income by line items of net income, if the amount is required to be reclassified in its entirety in the same reporting period, either on the face of the financial statements or in the related footnotes. For other amounts that are not required to be reclassified in their entirety to net income, a company is required to cross-reference to other disclosures that provide additional detail about those amounts. The amendments are effective for fiscal years beginning after December 15, 2012 and interim periods within those fiscal years. Early adoption is permitted. This amendment is applicable to us beginning in the first quarter of 2014. Other than modifying our disclosures, the adoption of this standard is not expected to have a material impact on our financial statements.

In March 2013, the FASB issued ASU No. 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Group of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU is intended to eliminate diversity in practice on the release of cumulative translation adjustments into net income when a parent either sells part or all of its investment in a foreign entity, or when it no longer holds a controlling financial interest. In addition, the amendments resolve the diversity in practice for the treatment of business combinations achieved in stages involving a foreign entity. The provisions of this ASU are effective for fiscal years beginning after December 15, 2013 and interim periods within those fiscal years. This amendment is applicable to us beginning in the first quarter of 2015. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on our financial statements.

## CONSOLIDATED RESULTS OF OPERATIONS AND OUTLOOK

| (dollars in millions,<br>except per share data)                       | Three Months Ended |                  |                |               | Nine Months Ended |                  |                |               |  |
|---|--------------------|------------------|----------------|---------------|-------------------|------------------|----------------|---------------|--|
|   | June 29,<br>2013   | June 30,<br>2012 | \$<br>Variance | %<br>Variance | June 29,<br>2013  | June 30,<br>2012 | \$<br>Variance | %<br>Variance |  |
| Net sales   | \$670.6            | \$611.2          | \$59.4         | 10 %          | \$1,934.5         | \$1,836.8        | \$97.6         | 5 %           |  |
| Gross margin  | 29.6               | %30.0            | %              |               | 30.4              | %30.1            | %              |               |  |
| Research and development expenses                                     | \$33.1             | \$28.2           | \$4.9          | 17 %          | \$103.6           | \$84.3           | \$19.3         | 23 %          |  |
| Selling, general and administrative expenses as a percentage of sales | 14.4               | %15.3            | %              |               | 15.6              | %15.6            | %              |               |  |
| Interest expense  | \$6.1              | \$8.6            | \$(2.5)        | (29 %)        | \$21.1            | \$25.7           | \$(4.6)        | (18 %)        |  |
| Restructuring   | 4.8                | —                | 4.8            | N/A           | 7.0               | —                | 7.0            | N/A           |  |
| Other   | 10.1               | (0.4)            | ) 10.5         | (2,625 %)     | 7.6               | (0.3)            | ) 8.0          | (2,633 %)     |  |
| Effective tax rate  | 28.1               | %27.2            | %              |               | 28.5              | %29.1            | %              |               |  |
| Net earnings  | \$34.2             | \$38.9           | \$(4.6)        | (12 %)        | \$104.9           | \$110.7          | \$(5.8)        | (5 %)         |  |
| Diluted earnings per share  | \$0.75             | \$0.85           | \$(0.10)       | (12 %)        | \$2.29            | \$2.42           | \$(0.13)       | (5 %)         |  |

Net sales increased in the third quarter of 2013 compared to the third quarter of 2012. Net sales also increased in the first nine months of 2013 compared to the same period in 2012. For both comparisons, sales increased in Aircraft Controls, Components, Space and Defense Controls and Medical Devices, while sales in Industrial Systems declined. Acquisitions contributed \$32 million of the sales growth in the third quarter and \$80 million in the first nine months of 2013 as compared to the same periods in 2012.

Gross margin decreased slightly in the third quarter, in part due to charges associated with a technical challenge in our Space and Defense Controls segment. Gross margin increased in the first nine months of 2013 compared to the first nine months of 2012 due in part to favorable product mix in Aircraft Controls, Components and Medical Devices.

Research and development expenses were higher in the third quarter of 2013 compared to the same period in 2012 primarily as a result of reimbursements negotiated on commercial transport programs that benefited the third quarter of 2012. Research and development expenses were also higher in the first nine months of 2013 compared to the same period in 2012, due to reimbursements negotiated on commercial transport programs in 2012 and increased activity on the Boeing 787-9 program in 2013.

Selling, general and administrative expenses as a percentage of sales declined in the third quarter of 2013 compared to the third quarter of 2012 due to cost containment activities. Selling, general and administrative expenses as a percentage of sales for the first nine months of 2013 was unchanged as our cost containment efforts offset higher costs in the first half of the year.

Interest expense decreased in the third quarter and the first nine months of 2013 compared to the same periods in 2012 due to the early redemption of our 6¼% senior subordinated notes on January 15, 2013.

In the third quarter of 2013, we continued our restructuring plans to better align our cost structure with our projected sales levels. The restructuring actions taken have resulted in workforce reductions in our Industrial Systems, Aircraft Controls and Space and Defense Controls segments.



Other expense in the third quarter of 2013 is mostly related to a \$7 million loss in our Medical Devices segment on the sale of the Buffalo, New York Ethox Medical operations. Additionally, we had a \$2 million write-down of an investment in Industrial Systems. For the first nine months of 2013, these charges were partially offset by recording income in our Components segment related to an acquisition with unachieved earn out provisions.

The effective tax rate increased in the third quarter of 2013 due to less benefit associated with foreign earnings. The effective tax rate decreased for the first nine months of 2013 due to the inclusion of a catch up adjustment for research and development tax credits mostly associated with 2012 following the enactment of legislation in the second quarter of 2013, and was partially offset by less benefit associated with foreign earnings.

2013 Outlook – We expect sales in 2013 to increase 5% to \$2.58 billion, with growth in Aircraft Controls, Components and Space and Defense Controls. Offsetting almost a third of the growth is an expected sales decline in our Industrial Systems segment, reflecting continued weaker demand in our wind and industrial automation markets. We expect sales in our Medical Devices segment to remain flat. Of the sales growth in 2013, we expect sales associated with acquisitions to contribute approximately 75% of the growth. We expect operating margin to decline to 10.6% in 2013 from 11.1% in 2012. We expect a decline in our Medical Devices segment, due to the loss on the sale of the Buffalo, New York Ethox Medical operations. We also expect a decline in our Industrial Systems segment, as we incurred restructuring expenses and a write-down related to an investment in 2013. Partially offsetting these declines is the expected operating margin expansion from Aircraft Controls and Components segments. We expect restructuring expenses to be \$11 million, primarily related to staff reductions in our Industrial Systems, Aircraft Controls and Space and Defense Controls segments. We will also benefit from \$7 million of lower interest expenses due to the early redemption of our 6¼% senior subordinated notes on January 15, 2013. We expect net earnings to decrease to \$148.7 million, and diluted earnings per share to decline 2% to \$3.25.

While sequestration (as noted in Economic Conditions and Market Trends) has been enacted, we do not anticipate any significant impact of sequestration reductions in fiscal 2013 from this legislation.

2014 Outlook – We expect sales in 2014 to increase 3% to \$2.67 billion, with growth in Components, Space and Defense Controls and Aircraft Controls. We expect flat sales in our key markets within our Industrial Systems segment as we are not forecasting a change in the current economic conditions. We expect our Medical Devices segment to decline slightly as organic sales growth is offset by the \$9 million sales reduction due to the divestiture of the Buffalo, New York Ethox Medical operations. We expect a significant increase in profitability as our operating margin increases to 12.4% as Industrial Systems, Aircraft Controls, Space and Defense Controls and Medical Devices will contribute margin growth. Components' operating margin will decline slightly on less favorable sales mix. We expect net earnings to increase to between \$180.0 and \$189.3 million, and diluted earnings per share to increase between 20% and 26% to between \$3.90 and \$4.10.



## SEGMENT RESULTS OF OPERATIONS AND OUTLOOK

Operating profit, as presented below, is net sales less cost of sales and other operating expenses, excluding interest expense, equity-based compensation expense and other corporate expenses. Cost of sales and other operating expenses are directly identifiable to the respective segment or allocated on the basis of sales, number of employees or profit. Operating profit is reconciled to earnings before income taxes in Note 16 of the Notes to Consolidated Condensed Financial Statements included in this report.

## Aircraft Controls

| (dollars in millions)           | Three Months Ended |                  |                |               | Nine Months Ended |                  |                |               |
|---------------------------------|--------------------|------------------|----------------|---------------|-------------------|------------------|----------------|---------------|
|                                 | June 29,<br>2013   | June 30,<br>2012 | \$<br>Variance | %<br>Variance | June 29,<br>2013  | June 30,<br>2012 | \$<br>Variance | %<br>Variance |
| Net sales - military aircraft   | \$156.0            | \$141.7          | \$14.3         | 10 %          | \$450.3           | \$427.3          | \$23.0         | 5 %           |
| Net sales - commercial aircraft | \$116.9            | \$100.5          | \$16.4         | 16 %          | \$333.7           | \$282.4          | \$51.3         | 18 %          |
| Operating profit                | \$272.9            | \$242.2          | \$30.6         | 13 %          | \$784.0           | \$709.7          | \$74.3         | 10 %          |
| Operating margin                | \$31.1             | \$27.8           | \$3.2          | 12 %          | \$93.6            | \$75.4           | \$18.2         | 24 %          |
| Backlog                         | 11.4               | % 11.5           | %              |               | 11.9              | % 10.6           | %              |               |
|                                 |                    |                  |                |               | \$637.9           | \$690.3          | \$(52.4)       | (8 %)         |

Aircraft Controls' sales increased in both the third quarter and first nine months of 2013 compared to the same periods in 2012 in both commercial and military markets.

During the third quarter of 2013, the sales dollar growth was almost evenly attributable to both military and commercial markets. Within commercial aircraft, OEM sales to Boeing increased \$16 million, as production continued to ramp up on the 787 Dreamliner and volume increased on other Boeing production programs. Within military aircraft, OEM sales increased \$12 million. F-35 sales production benefited from a new production order, and sales on the KC-46 Tanker increased \$3 million as the program continues to ramp up. In addition, sales in military aftermarket increased \$2 million.

During the first nine months of 2013, within commercial aircraft, Boeing OEM sales increased \$42 million. Within military aircraft, aftermarket sales increased \$17 million in part due to foreign military test equipment and spares orders. Military OEM sales increased \$6 million, as increases in the KC-46 Tanker and F-35 programs were partially offset by lower sales in navigation aids.

Operating margin in the third quarter of 2013 was relatively unchanged from the same period a year ago. Offsetting the increases from sales volume and favorable mix was a \$5 million increase in research and development expenses related to negotiated reimbursements on commercial aircraft transport programs that benefited the third quarter of 2012. Operating margin for the first nine months of 2013 improved compared to 2012. Higher volume and more favorable product mix, as well as lower selling expenses, offset increases in research and development expenses as 2012 included negotiated reimbursements and activity increased on the Boeing 787-9 platform in 2013.

The decline of twelve-month backlog for Aircraft Controls at June 29, 2013 compared to June 30, 2012 is largely related to the timing of various military programs, and is partially offset by increases in commercial orders.

2013 Outlook for Aircraft Controls – We expect sales in Aircraft Controls to increase 8% to \$1.04 billion in 2013. Commercial aircraft is expected to increase 15% to \$447 million due to stronger sales to Boeing and, to a lesser

extent, Airbus. Military aircraft sales are expected to increase 2% to \$589 million. Aftermarket sales are expected to drive the increase while OEM sales are expected to remain flat, as fighter aircraft and KC-46 program growth is offset by navigation aids declines. We expect our operating margin to increase to 12.2% in 2013 from 10.9% in 2012, reflecting incremental margin on higher sales and a decline in selling, general and administrative expenses as a percentage of sales. Partly offsetting this increase is \$2 million of restructuring expenses already incurred in 2013.

2014 Outlook for Aircraft Controls – We expect sales in Aircraft Controls to increase 2% to \$1.06 billion in 2014. Commercial aircraft is expected to increase 12% to \$499 million due to stronger sales across our major OEM programs. Partially offsetting this growth is an expected 5% decline in military aircraft sales to \$558 million, as F-35 development and V-22 production rates decline. Also, we expect a decline in military aftermarket sales, reflecting our forecast of a possible sequestration impact. We expect our operating margin to increase to 13.0% in 2014 from 12.2% in 2013 as we benefit from incremental margin on higher commercial sales and a decline in research and development expenses.

## Space and Defense Controls

| (dollars in millions) | Three Months Ended |                  |                |               | Nine Months Ended |                  |                |               |
|-----------------------|--------------------|------------------|----------------|---------------|-------------------|------------------|----------------|---------------|
|                       | June 29,<br>2013   | June 30,<br>2012 | \$<br>Variance | %<br>Variance | June 29,<br>2013  | June 30,<br>2012 | \$<br>Variance | %<br>Variance |
| Net sales             | \$100.1            | \$87.1           | \$12.9         | 15 %          | \$292.2           | \$265.3          | \$26.9         | 10 %          |
| Operating profit      | \$6.7              | \$9.9            | \$(3.2)        | (32 %)        | \$22.6            | \$32.5           | \$(9.9)        | (31 %)        |
| Operating margin      | 6.7                | % 11.4           | %              |               | 7.7               | % 12.3           | %              |               |
| Backlog               |                    |                  |                |               | \$260.5           | \$191.5          | \$69.0         | 36 %          |

Space and Defense Controls' sales increased in both the third quarter and the first nine months of 2013 due to acquisitions in the space market more than offsetting declines in various legacy programs.

Within the space market for the quarter, sales increased \$12 million, \$17 million of which came from acquisitions. In-Space Propulsion contributed \$10 million and Broad Reach Engineering contributed \$7 million of incremental sales. Partly offsetting the sales increase attributable to acquisitions was a \$5 million decline in other spacecraft controls. Specifically, we experienced a technical challenge on a space program in one of our other recent acquisitions.

Within the space market for the first nine months of 2013, sales increased \$33 million, as acquisitions contributed \$51 million. In-Space Propulsion contributed \$32 million and Broad Reach Engineering contributed \$18 million. Partially offsetting the increase attributable to these acquisitions was a \$17 million decrease in other space sales as efforts wound down on the Orion multi purpose crew vehicle and activity was light in our spacecraft mechanisms market. Within the security market, sales declined \$4 million year-to-date in 2013 as Driver Vision Enhancement sales in 2012 did not repeat. Sales within our defense sector declined \$3 million, in part due to a decline in missile systems production rates.

Operating margin declined in the third quarter and in the first nine months of 2013 compared to the same periods of 2012. This is largely due to charges in the current quarter associated a technical challenge in one of our earlier space market acquisitions. Slightly offsetting the charges was lower selling, general and administrative expenses as a percent of sales.

The increased level in twelve-month backlog at June 29, 2013 is mainly due to acquisitions in the past year.

**2013 Outlook for Space and Defense Controls** – We expect sales in Space and Defense Controls to increase 13% to \$404 million in 2013. This sales increase is primarily attributable to our recent acquisitions of In-Space Propulsion and Broad Reach Engineering. We expect our operating margin to decrease to 8.5% in 2013 from 11.9% in 2012, largely as a result of the impact from recent acquisitions, the continued softening of the commercial satellite market and unfavorable product mix.

**2014 Outlook for Space and Defense Controls** – We expect sales in Space and Defense Controls to increase 7% to \$433 million in 2013. We expect half of the increase to come from the benefit of a full year of Broad Reach Engineering. We also expect an increase in sales associated with foreign opportunities on a missile defense program. We expect our operating margin to increase to 10.0% in 2014 from 8.5% in 2013 as we were negatively impacted in 2013 by technical challenges in one of our earlier space market acquisitions.





## Industrial Systems

| (dollars in millions) | Three Months Ended |                  |                |               | Nine Months Ended |                  |                |               |
|-----------------------|--------------------|------------------|----------------|---------------|-------------------|------------------|----------------|---------------|
|                       | June 29,<br>2013   | June 30,<br>2012 | \$<br>Variance | %<br>Variance | June 29,<br>2013  | June 30,<br>2012 | \$<br>Variance | %<br>Variance |
| Net sales             | \$ 147.2           | \$ 157.9         | \$(10.7)       | (7 %)         | \$ 439.3          | \$ 484.0         | \$(44.6)       | (9 %)         |
| Operating profit      | \$ 9.3             | \$ 15.9          | \$(6.6)        | (42 %)        | \$ 26.2           | \$ 51.0          | \$(24.8)       | (49 %)        |
| Operating margin      | 6.3                | % 10.1           | %              |               | 6.0               | % 10.5           | %              |               |
| Backlog               |                    |                  |                |               | \$ 211.0          | \$ 242.7         | \$(31.7)       | (13 %)        |

Sales in Industrial Systems declined in both the third quarter and the first nine months of 2013, reflecting continued weaker demand in our wind and industrial automation markets.

Industrial Systems' sales declined in the third quarter of 2013 compared to the third quarter of 2012. Sales in wind energy declined \$11 million due to weak sales in China and lower demand in Europe which had benefited from a strong sales quarter last year. Additionally, sales in the industrial automation market declined \$4 million, mostly due to lower activity in our metal forming and presses business. Partially offsetting the declines was a \$3 million sales increase for military flight simulators.

Sales in Industrial Systems also declined in the first nine months of 2013 compared to the first nine months of 2012. Sales in our wind business declined \$36 million, primarily a result of continued weakness in China. Sales in the industrial automation market declined \$16 million with declines in metal forming and presses, heavy industry and in plastic and die casting. Stronger sales for flight simulation partially offset these sales declines.

Operating margin declined in the third quarter of 2013 compared to the same quarter of 2012 due to \$3 million in restructuring expenses and a \$2 million write-down on an investment. For the first nine months of 2013, operating margin declined as well. The decline was largely due to the lower sales volume. The first three quarters of fiscal 2013 also included \$5 million of restructuring costs and the \$2 million investment write-down.

The twelve-month backlog for Industrial Systems at June 29, 2013 decreased as compared to June 30, 2012, due to lower order volume in most of our markets.

2013 Outlook for Industrial Systems – We expect sales in Industrial Systems to decline 8% to \$585 million in 2013. We expect sales in our energy and industrial automation markets to decrease compared to the prior year. However, we expect simulation and test sales to increase. We expect that our operating margin will decrease to 7.0% in 2013 from 10.0% in 2012, as our 2013 operating results include restructuring expenses and reflect diminished margin on lower sales.

2014 Outlook for Industrial Systems – We expect sales in Industrial Systems to remain flat relative to sales in 2013. We expect that our operating margin will increase to 12.2% in 2014 from 7.0% in 2013, as we benefit from our 2013 restructuring activities.

## Components

| (dollars in millions) | Three Months Ended |                  |                |               | Nine Months Ended |                  |                |               |  |
|-----------------------|--------------------|------------------|----------------|---------------|-------------------|------------------|----------------|---------------|--|
|                       | June 29,<br>2013   | June 30,<br>2012 | \$<br>Variance | %<br>Variance | June 29,<br>2013  | June 30,<br>2012 | \$<br>Variance | %<br>Variance |  |
| Net sales             | \$112.5            | \$90.3           | \$22.2         | 25 %          | \$310.6           | \$274.1          | \$36.5         | 13 %          |  |
| Operating profit      | \$18.4             | \$12.7           | \$5.7          | 45 %          | \$52.5            | \$41.2           | \$11.4         | 28 %          |  |
| Operating margin      | 16.3               | % 14.0           | %              |               | 16.9              | % 15.0           | %              |               |  |
| Backlog               |                    |                  |                |               | \$186.5           | \$169.4          | \$17.1         | 10 %          |  |

Components' sales increased in the third quarter and in the first three quarters of 2013 compared to the same periods of 2012 primarily as a result of incremental sales from acquisitions.

Components' sales increased in our non-aerospace and defense markets in the third quarter of 2013 compared to the third quarter of 2012 due to \$15 million of incremental sales from our Aspen and Tritech acquisitions. Sales also increased \$5 million in our aerospace and defense markets, in part due to increased spares orders.

Components' sales increased in our non-aerospace and defense markets in the first nine months of 2013 compared to the same period in 2012 due to \$30 million of incremental sales from our Aspen and Tritech acquisitions. In addition, sales increased \$4 million in our aerospace and defense markets largely due to commercial aircraft growth.

Operating margin increased in the third quarter and in the first three quarters of 2013 compared to the same periods of 2012 as a result of a favorable sales mix and cost containment efforts. In addition, the first three quarters of 2013 as compared to the first three quarters of 2012 benefited from an unachieved earn out provision related to an acquisition.

The twelve-month backlog at June 29, 2013 compared to June 30, 2012 increased primarily related to acquisitions.

2013 Outlook for Components – We expect sales to increase 12% to \$421 million in 2013 as acquisitions drive sales growth in our marine and industrial markets. We expect that our operating margin will increase to 16.5% in 2013 from 15.3% in 2012, reflecting our strong results for the first nine months of 2013.

2014 Outlook for Components – We expect sales to increase 9% to \$460 million in 2014 with nearly half of this sales growth from our Aspen acquisition in our industrial market. Also we expect the remaining non-aerospace and defense markets to each increase \$6 million, in part due to new products in our energy market and continued strong medical imaging sales in our medical market. We expect sales in our aerospace and defense markets to slightly offset this growth. We expect operating margin will moderate to 15.0% in 2014 from 16.5% in 2013, reflecting a slightly less favorable mix of sales.

## Medical Devices

| (dollars in millions)      | Three Months Ended |                  |                |               | Nine Months Ended |                  |                |               |
|----------------------------|--------------------|------------------|----------------|---------------|-------------------|------------------|----------------|---------------|
|                            | June 29,<br>2013   | June 30,<br>2012 | \$<br>Variance | %<br>Variance | June 29,<br>2013  | June 30,<br>2012 | \$<br>Variance | %<br>Variance |
| Net sales                  | \$38.0             | \$33.7           | \$4.3          | 13 %          | \$108.3           | \$103.7          | \$4.6          | 4 %           |
| Operating profit<br>(loss) | \$(2.8 )           | \$1.4            | \$(4.1 )       | (304 %)       | \$0.1             | \$4.4            | \$(4.3 )       | (97 %)        |
| Operating margin           | (7.3 )             | %4.0             | %              |               | 0.1               | %4.3             | %              |               |
| Backlog                    |                    |                  |                |               | \$10.1            | \$18.6           | \$(8.5 )       | (46 %)        |

Medical Devices' sales increased in both the third quarter and first nine months of 2013 when compared to the same periods last year due to strong sales in the third quarter of 2013.

In the third quarter of 2013 compared to the third quarter of 2012, sales of IV Pumps and enteral sets each increased \$1 million on improved order volumes, and sales of pump assemblies increased \$1 million. For the first nine months of 2013, sales of pump assemblies increased \$4 million and IV Pumps increased \$3 million. However, sensor and handpiece sales declined \$3 million for the same period.

Operating margin in the third quarter of 2013 and the first nine months of 2013 included a \$7 million loss on the sale of the Buffalo, New York Ethox Medical operations. Excluding this loss, operating margin was 10.4% and 6.4% in the third quarter and the first nine months, respectively. The stronger operating margin in the third quarter and first nine months of 2013 reflected higher third quarter sales.

Twelve-month backlog for Medical Devices is not as substantial relative to sales as compared to our other segments, reflecting the shorter order-to-shipment cycle for this line of business.

2013 Outlook for Medical Devices – We expect sales in 2013 to remain flat at \$139 million. Sales of pumps are expected to stay constant with 2012 as our IV pumps gain traction in the marketplace, but are offset by declines in disposable pumps. Also sets are expected to decline due to a contract shift with a large customer who is moving from a component sale structure to a royalty structure. We expect our operating margin to decline to 1.5% in 2013 from 3.9% in 2012, as a result of the Buffalo, New York Ethox Medical divestiture. In conjunction with the divestiture, we have engaged with Royal Bank of Canada to help us with our strategic review of the rest of the Medical Devices segment, including the possibility of a sale. We expect this engagement will last between six and twelve months.

2014 Outlook for Medical Devices – We expect sales in 2014 to decrease slightly to \$137 million. We expect sales growth in IV pumps to be offset by lost sales from the Buffalo, New York Ethox Medical divestiture and lower enteral set sales. We expect our operating margin to improve to 7.1% in 2014 from 1.5% as 2013 included a loss on the sale of the Ethox Medical Buffalo operations.

## FINANCIAL CONDITION AND LIQUIDITY

| (dollars in millions)        | Nine Months Ended |                  | \$     | %     |   |
|------------------------------|-------------------|------------------|--------|-------|---|
|                              | June 29,<br>2013  | June 30,<br>2012 |        |       |   |
| Net cash provided (used) by: |                   |                  |        |       |   |
| Operating activities         | \$160.5           | \$143.5          | \$17.0 | 12    | % |
| Investing activities         | (150.9)           | (110.1)          | (40.8) | 37    | % |
| Financing activities         | 4.4               | (4.1)            | 8.5    | (206) | % |

Our available borrowing capacity and our cash flow from operations provide us with the financial resources needed to run our operations, reinvest in our business and make strategic acquisitions.

At June 29, 2013, our cash balance was \$162 million, which is primarily held outside of the U.S. Cash flow from our U.S. operations, together with borrowings on our credit facility, fund on-going activities, debt service requirements and future growth investments. We reinvest the cash generated from foreign operations locally and such international balances are not available to pay down debt in the U.S. unless we decide to repatriate such amounts. If we determine repatriation of foreign funds was necessary, we would then be required to pay U.S. income taxes on those funds.

## Operating activities

Cash provided by operating activities increased in the first nine months of 2013 compared to the first nine months of 2012. The growth in our receivables slowed in the first nine months of 2013 compared to the same period in 2012 due to stronger collections, primarily in our Aircraft Controls and Industrial Systems segments. Partially offsetting the increase was higher customer advances received in 2012 that did not repeat.

## Investing activities

Cash used by investing activities for the first nine months of 2013 includes \$69 million for two acquisitions, one in Space and Defense Controls and one in Components, \$63 million for capital expenditures, \$13 million used to redeem our 6¼% senior subordinated notes that were invested in our supplemental retirement plan and a \$6 million loan to another company for strategic technology development. Cash used by investing activities in the first nine months of 2012 included \$26 million for two acquisitions, one in Space and Defense Controls and one in Components, \$79 million of capital expenditures, including a newly constructed facility in our Aircraft Controls segment, and \$5 million related to another company for strategic technology development.

We expect our 2013 capital expenditures to be approximately \$95 million, and we expect our 2014 capital expenditures to be approximately \$105 million.

## Financing activities

The cash provided by financing activities for the first nine months of 2013 includes borrowings to fund a higher level of acquisitions compared to the same period in 2012. Within financing activities in 2013, we used credit facility borrowings to fund the redemption of our 6¼% senior subordinated notes. Within financing activities in 2012, we entered into a trade receivables securitization facility, which reduced borrowings on our U.S. credit facility.

## Off Balance Sheet Arrangements

We do not have any material off balance sheet arrangements that have or are reasonably likely to have a material future effect on our results of operations or financial condition.

#### Contractual Obligations and Commercial Commitments

Our contractual obligations and commercial commitments have not changed materially from the disclosures in our 2012 Annual Report on Form 10-K, with the exception of the redemption of our 6¼% senior subordinated notes, which was completed on January 15, 2013.

## CAPITAL STRUCTURE AND RESOURCES

We maintain bank credit facilities to fund our short and long-term capital requirements, including for acquisitions. From time to time, we also sell equity and debt securities to fund acquisitions or take advantage of favorable market conditions.

On January 15, 2013, we repurchased our 6¼% senior subordinated notes due on January 15, 2015 at par, pursuant to an early redemption right. We redeemed the aggregate principal amount of \$200 million using proceeds drawn from our U.S. credit facility.

On March 28, 2013, we amended our U.S. credit facility. The amendments primarily reflect a modification of the matrix used to determine the applicable interest margin, the commitment fee rate and extended the maturity of the credit facility to March 28, 2018. Our credit facility is a \$900 million revolver and had an outstanding balance of \$509 million at June 29, 2013. Interest on the majority of the outstanding credit facility borrowings is based on LIBOR plus the applicable margin, which was 138 basis points at June 29, 2013. The credit facility is secured by substantially all of our U.S. assets.

The U.S. credit facility contains various covenants. The covenant for minimum interest coverage ratio, defined as the ratio of EBITDA to interest expense for the most recent four quarters, is 3.0. The covenant for the maximum leverage ratio, defined as the ratio of net debt, including letters of credit, to EBITDA for the most recent four quarters, is 3.5. The covenant for maximum capital expenditures is \$155 million for 2013 and increases by \$10 million each year thereafter. We are in compliance with all covenants. EBITDA is defined in the loan agreement as (i) the sum of net income, interest expense, income taxes, depreciation expense, amortization expense, other non-cash items reducing consolidated net income and non-cash equity-based compensation expenses minus (ii) other non-cash items increasing consolidated net income.

We are generally not required to obtain the consent of lenders of the U.S. credit facility before raising significant additional debt financing; however, certain limitations and conditions may apply that would require consent to be obtained. In recent years, we have demonstrated our ability to secure consents to access debt markets. We have also been successful in accessing equity markets from time to time. We believe that we will be able to obtain additional debt or equity financing as needed.

At June 29, 2013, we had \$391 million of unused borrowing capacity, including \$378 million from the U.S. credit facility after considering standby letters of credit.

We have a trade receivables securitization facility (the "Securitization Program"), which terminates on March 3, 2014. Under the Securitization Program, we sell certain trade receivables and related rights to an affiliate, which in turn sells an undivided variable percentage ownership interest in the trade receivables to a financial institution, while maintaining a subordinated interest in a portion of the pool of trade receivables. The Securitization Program can be extended by agreement of the parties thereto for successive 364-day terms. The Securitization Program effectively increases our borrowing capacity by up to \$100 million and lowers our cost to borrow funds as compared to the U.S. credit facility. We had an outstanding balance of \$69 million at June 29, 2013. The Securitization Program reduced the amount outstanding under our U.S. credit facility and increased the amount of short-term borrowings. Interest on the secured borrowings under the Securitization Program was 87 basis points at June 29, 2013 and is based on prevailing market rates for short-term commercial paper plus an applicable margin.

Net debt to capitalization was 31% at June 29, 2013 and 32% at September 29, 2012. The decrease in net debt to capitalization is primarily due to our net earnings in the first nine months of 2013.

We believe that our cash on hand, cash flows from operations and available borrowings under short and long-term arrangements will continue to be sufficient to meet our operating needs.

## ECONOMIC CONDITIONS AND MARKET TRENDS

We operate within the aerospace and defense and industrial markets. Our aerospace and defense markets are affected by market conditions and program funding levels, while our industrial markets are influenced by general capital investment trends and economic conditions. A common factor throughout our markets is the continuing demand for technologically advanced products.

### Aerospace and Defense

Approximately 59% of our 2012 sales were generated in aerospace and defense markets. Within aerospace and defense, we serve three end markets: defense, commercial aircraft and space.

The defense market is dependent on military spending for development and production programs. Aircraft production programs are typically long-term in nature, offering predictability as to capacity needs and future revenues. We maintain positions on numerous high priority programs, including the F-35 Joint Strike Fighter, F/A-18E/F Super Hornet and V-22 Osprey. The large installed base of our products leads to attractive aftermarket sales and service opportunities. The tactical missile, missile defense and defense controls markets are dependent on many of the same market conditions as military aircraft, including overall military spending and program funding levels. Our homeland security product line is dependent on government funding at federal and local levels, as well as private sector demand.

Additional cuts to the U.S. Department of Defense's mandatory and discretionary budgeted spending, resulting from the 2011 Budget Control Act, which became effective on March 1, 2013, will have ramifications for the aerospace and defense market. Currently, the Budget Control Act provides that these cuts of approximately \$500 billion over the next decade (which is generally referred to as sequestration) are uniform by category for programs, projects and activities within accounts. Depending on how the spending cuts are eventually executed, these reductions could impact our sales, operating profit and cash flow. We are concerned that our military aftermarket sales could be most affected. Currently, we have approximately \$700 million in domestic defense sales forecasted for 2013.

Global demand for air travel generally follows economic growth and therefore the commercial aircraft market has historically exhibited cyclical swings. The aftermarket is driven by usage of the existing aircraft fleet and the age of the installed fleet, and is impacted by fleet re-sizing programs for passenger and cargo aircraft. Changes in aircraft utilization rates affect the need for maintenance and spare parts and impact aftermarket sales. Boeing and Airbus have historically adjusted production in line with air traffic volume. Demand for our commercial aircraft products is in large part dependent on new aircraft production, which is increasing as Boeing and Airbus work down large backlogs of unfilled orders.

The commercial space market is comprised of large satellite customers, traditionally communications companies. Trends for this market, as well as for commercial launch vehicles, follow demand for increased capacity, satellite replacement and global navigation. The space market is also partially dependent on the governmental authorized levels of funding for satellite communications.

### Industrial

Approximately 41% of our 2012 sales were generated in industrial markets. Within industrial, we serve three end markets: industrial automation, energy and medical.

The industrial automation market we serve is influenced by several factors including capital investment, product innovation, economic growth, cost-reduction efforts and technology upgrades. We experience challenges based on the need to react to the demands of our customers who are in large part sensitive to international and domestic economies. The energy market is in part affected by changing natural oil and gas prices, global urbanization and the resulting increase in demand for global energy. Drivers for global growth include investments in power generation infrastructure, including renewable energy, and exploration for new resource reservoirs.



The medical market we serve is influenced by economic conditions, regulatory environments, hospital and outpatient clinic spending on equipment, population demographics, medical advances, patient demands and the need for precision control components and systems. Advances in medical technology and medical treatments have had the effect of extending the average life span, in turn resulting in greater need for medical services. These same technology and treatment advances also drive increased demand from the general population as a means to improve quality of life. Access to medical insurance, whether through government funded health care plans or private insurance, also affects the demand for medical services.

#### Foreign Currencies

We are affected by the movement of foreign currencies compared to the U.S. dollar, particularly in our Industrial Systems segment. About one-third of our 2012 sales were denominated in foreign currencies. The translation of the results of our foreign subsidiaries into U.S. dollars did not have a significant impact on our sales in the first nine months of 2013 compared to the same period one year ago.

Cautionary Statement

Information included or incorporated by reference in this report that does not consist of historical facts, including statements accompanied by or containing words such as “may,” “will,” “should,” “believes,” “expects,” “expected,” “intends,” “projects,” “approximate,” “estimates,” “predicts,” “potential,” “outlook,” “forecast,” “anticipates,” “presume” and “assume,” forward-looking statements. Such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance and are subject to several factors, risks and uncertainties, the impact or occurrence of which could cause actual results to differ materially from the expected results described in the forward-looking statements. These important factors, risks and uncertainties include:

- the markets we serve are cyclical and sensitive to domestic and foreign economic conditions and events, which may cause our operating results to fluctuate;
- we operate in highly competitive markets with competitors who may have greater resources than we possess;
- we depend heavily on government contracts that may not be fully funded or may be terminated, and the failure to receive funding or the termination of one or more of these contracts could reduce our sales and increase our costs;
- we make estimates in accounting for long-term contracts, and changes in these estimates may have significant impacts on our earnings;
- we enter into fixed-price contracts, which could subject us to losses if we have cost overruns;
- if our subcontractors or suppliers fail to perform their contractual obligations, our prime contract performance and our ability to obtain future business could be materially and adversely impacted;
- contracting on government programs is subject to significant regulation, including rules related to bidding, billing and accounting kickbacks and false claims, and any non-compliance could subject us to fines and penalties or possible debarment;
- the loss of Boeing as a customer or a significant reduction in sales to Boeing could adversely impact our operating results;
- our new product research and development efforts may not be successful which could reduce our sales and earnings;
- our inability to adequately enforce and protect our intellectual property or defend against assertions of infringement could prevent or restrict our ability to compete;
- our business operations may be adversely affected by information systems interruptions or infringements;
- our indebtedness and restrictive covenants under our credit facilities could limit our operational and financial flexibility;
- significant changes in discount rates, rates of return on pension assets, mortality tables and other factors could affect our earnings, equity and pension funding requirements;
- a write-off of all or part of our goodwill or other intangible assets could adversely affect our operating results and net worth;
- our sales and earnings growth may be affected if we cannot identify, acquire or integrate strategic acquisitions;
- our operations in foreign countries expose us to political and currency risks and adverse changes in local legal and regulatory environments;
- unforeseen exposure to additional tax income liabilities may affect our operating results;
- government regulations could limit our ability to sell our products outside the United States and otherwise adversely affect our business;
- the failure or misuse of our products may damage our reputation, necessitate a product recall or result in claims against us that exceed our insurance coverage, thereby requiring us to pay significant damages;
- future terror attacks, natural disasters or other catastrophic events beyond our control could negatively impact our business;
- our operations are subject to environmental laws, and complying with those laws may cause us to incur significant costs; and

•we are involved in various legal proceedings, the outcome of which may be unfavorable to us.

These factors are not exhaustive. New factors, risks and uncertainties may emerge from time to time that may affect the forward-looking statements made herein. Given these factors, risks and uncertainties, investors should not place undue reliance on forward-looking statements as predictive of future results. We disclaim any obligation to update the forward-looking statements made in this report.

35

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Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Refer to the Company's Annual Report on Form 10-K for the year ended September 29, 2012 for a complete discussion of our market risk. There have been no material changes in the current year regarding this market risk information.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Exchange Act Rules 13a-15(e) and 15d-15(e). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that these (a) disclosure controls and procedures are effective as of the end of the period covered by this report, to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over (b) financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II OTHER INFORMATION

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (c) The following table summarizes our purchases of our common stock for the quarter ended June 29, 2013.

| Period                          | (a) Total<br>Number of<br>Shares<br>Purchased<br>(1)(2) | (b) Average<br>Price Paid Per<br>Share | (c ) Total<br>Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs (3) | (d) Maximum<br>Number (or<br>Approximate<br>Dollar Value) of<br>Shares that May<br>yet be<br>Purchased<br>Under the Plans<br>or Programs (3) |
|---------------------------------|---|--|--|--|
| March 31, 2013 - April 30, 2013 | 1,245   | \$45.12                                | —  | 1,000,000  |
| May 1, 2013 - May 31, 2013      | 103,698   | \$50.48                                | —  | 1,000,000  |
| June 1, 2013 - June 29, 2013    | 9,354   | \$50.24                                | —  | 1,000,000  |
| Total                           | 114,297   | \$50.40                                | —  | 1,000,000  |

Reflects purchases by the SECT of shares of Class B common stock from the Moog Inc. Retirement Savings Plan (RSP) as follows: May, 32,311 shares at \$50.14 per share and June, 9,354 shares at \$50.24 per share. Purchases by (1) the SECT from members of the Moog family included: April, 1,245 shares of Class B common stock at \$45.12 per share.

(2) In connection with the exercise of stock options, we accept, from time to time, delivery of shares to pay the exercise price of stock options. During May, we accepted delivery of 71,387 shares at \$50.63 per share.

(3) In December 2011, the Board of Directors authorized a share repurchase program. The program permits the purchase of up to 1,000,000 shares of Class A or Class B common stock in open market or privately negotiated transactions at the discretion of management.

Item 6. Exhibits.

- (a) Exhibits
  - 31.1 Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 31.2 Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
  - 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  - 101 Interactive Data files (submitted electronically herewith)
    - (101.INS) XBRL Instance Document
    - (101.SCH) XBRL Taxonomy Extension Schema Document
    - (101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document
    - (101.DEF) XBRL Taxonomy Extension Definition Linkbase Document
    - (101.LAB) XBRL Taxonomy Extension Label Linkbase Document
    - (101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall not be deemed to be “filed” for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section and shall not be part of any registration or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Moog Inc.  
(Registrant)

Date: July 31, 2013

By /s/ John R. Scannell  
John R. Scannell  
Chief Executive Officer  
(Principal Executive Officer)

Date: July 31, 2013

By /s/ Donald R. Fishback  
Donald R. Fishback  
Vice President  
Chief Financial Officer  
(Principal Financial Officer)

Date: July 31, 2013

By /s/ Jennifer Walter  
Jennifer Walter  
Controller (Principal Accounting  
Officer)